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FOCUS: Motor vehicle insurance: Settling claims

BusinessWorld. Manila: Feb 18, 1997. pg. NOPGCIT

Publication title: BusinessWorld. Manila: Feb 18, 1997. pg. NOPGCIT

Source type: Periodical

ProQuest document ID: 84511811

Text Word Count 1272

Document URL: <http://proquest.umi.com/pqdweb?did=84511811&sid=2&Fmt=3&clie ntId=19649&RQT=309&VName=PQD>

Abstract (Document Summary)

There are also instances when the owner asks the repair shop to give a higher estimate, and, later, they split the profit. There was even a case, he added, where the claimant went to a motor shop but decided not to claim against his policy. Instead, the motor shop owner, without the knowledge of the policy owner, went to the insurance company and posed as the representative of the claimant. In another case, a car was insured with two companies. After claiming that the car was wrecked and determined by the first insurance company to be a total loss, the claimant then proceeded to the second insurance firm and fraudulently declared that his car was stolen.

According to latest data from the Insurance Commission, in terms of premiums, the motor car component of nonlife in 1995 cornered the biggest share of the pie. It earned premiums of P4.85 billion, or 50.6% of the total P9.58 billion, for the whole of nonlife.

In comparison, fire insurance had total premiums of P2.04 billion and losses of P900 million, for a loss ratio of 44.1%. Marine insurance, meanwhile, had premiums of P870 million and losses of P29 million, for a loss ratio of 33.3%.

Full Text (1272 words)

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By Geoffrey M. Ducanes

Second of two parts

The vehicle insurance industry, as in any other insurance business, constantly grapples with the issue of asset depreciation when it processes claims.

In assessing a vehicle's value, a depreciation rate is inputted to the repair cost. The average rate is 20% per year, so the life span of a car in terms of depreciation is five years. After five years, there is a so-called secondhand value.

But the theory does not actually apply in practice since there are cases wherein the car is seldom used and is almost brand-new, while there are cases that a ruggedly used one-year-old vehicle could have a depreciated value equivalent to more than 20%.

Risk and insurance management consultant Reynaldo de Dios said the bulk of the complaints filed with the Insurance Commission used to be on depreciation and "betterment of parts."

"For example, if your car is two years old and you changed one part, if they will purchase the part for you, then they will also take away 20% because they will say that it's new for old," he said. The Insurance Commission then came out with a ruling that for the first three years, there would be no depreciated values but, to compensate the insurance companies, the Insurance Commission allowed them to load their premiums up to a maximum of 125% on the basic premium.

Premiums depend on the horsepower of the vehicle. Smaller cars like the Kia have cheaper rates than the Toyota Corollas and the Honda Accords, with luxury cars having higher rates.

But in a business where the norm is how to minimize cost, it is quite difficult to blame the delay in the settlement of claims entirely on insurance companies.

"There are many possible scams in motor insurance," said an assistant supervisor at one of the largest nonlife insurance companies

nationwide.

He said the most common type is when the insured person add to a small damage on his own car to be able to claim more benefits.

There are also instances when the owner asks the repair shop to give a higher estimate, and, later, they split the profit. There was even a case, he added, where the claimant went to a motor shop but decided not to claim against his policy. Instead, the motor shop owner, without the knowledge of the policy owner, went to the insurance company and posed as the representative of the claimant. In another case, a car was insured with two companies. After claiming that the car was wrecked and determined by the first insurance company to be a total loss, the claimant then proceeded to the second insurance firm and fraudulently declared that his car was stolen.

Another Waterloo of car insurance firms is their relative unprofitability against other nonlife insurance businesses.

According to latest data from the Insurance Commission, in terms of premiums, the motor car component of nonlife in 1995 cornered the biggest share of the pie. It earned premiums of P4.85 billion, or 50.6% of the total P9.58 billion, for the whole of nonlife.

However, it also incurred losses of P3.02 billion, or 63.71% of the total P4.74-billion losses of the sector.

The loss ratio of the motor car component is at 62.27% as against 49.48% for the whole nonlife sector.

Loss ratio is defined as losses divided by premiums. The higher the loss ratio, the less profitable the insurance business.

Minus motor car, nonlife, which includes fire and marine insurance, would have a loss ratio of only 36.36%.

In comparison, fire insurance had total premiums of P2.04 billion and losses of P900 million, for a loss ratio of 44.1%. Marine insurance, meanwhile, had premiums of P870 million and losses of P29 million, for a loss ratio of 33.3%.

The 62.27% loss ratio of the motor car sector does not even include the commission costs, or the fees paid to insurance agents for their having acquired clients for the insurance company.

"Some companies give 15%, 20%, 25% - even more, because there are no rules on commissions," said Mr. de Dios.

If these are included, what may go to the insurance firms may be less than 20% of premiums collected.

"Some insurance companies, seeing the growing unprofitability of the motor car portfolio, have resorted to a stricter selection of insureds. It is expected that most insurance companies would either be more selective in automobile underwriting or will raise their rates in order to return the portfolio into profitability," said John Robert Uy of FGU Insurance Corp.

Still, motor car insurance is expected to continue its growth in the coming years. With the increasing purchasing power of the Filipino and the plummeting prices of brand new vehicles, the premiums generated from this sector is seen to contribute largely to the insurance pie.

"It's an easy insurance type to sell. Small companies usually rely on motor insurance to build up their market share. The result is that the fierce competition brings rates down to very low levels," said Mr. Uy.

"Nobody can drive a car nowadays without insurance. If you buy a new car on installment, the banks will insist on insurance. So, it's really almost compulsory," said Mr. de Dios.

He said the industry should review how to hasten the processing and settlement of claims.

Mr. de Dios said the vehicle insurance industries in other countries come out with a book every year that details the costs of vehicles with the corresponding values of spare parts. He said this can serve as the standard in evaluating damages. "If we can have this, we can speed up the settlement of claims."

He said the industry might also want to follow other countries which use television to settle claims. In this case, the claimant goes to the repair shop authorized by the insurance company. The shop will have a video facility which can be accessed by a claims manager in the head office of the insurance firm, and the assessment can be done immediately.

"I think they settle it (video facility assessment) in one hour," said Mr. de Dios.

The motor vehicle insurance industry had never had it so good with the increasing ability of people to buy vehicles at low prices.

Attendant to this is the increasing number of claims that would be filed with the insurance companies.

Regardless of the mode of settling the claim, and the avowed efficiency as promised by insurance agents, it still remains to be seen whether a vehicle owner could be efficiently and sufficiently covered by his insurance policy, or wait forever to be reimbursed for only a few thousand pesos worth of damage to his vehicle.

Premiums and Losses of Insurance Industry Sectors

[Table]

Line of Business Losses Incurred Premiums Earned Loss

Ratio

1995 (in mil. pesos) (in mil. pesos) (%)

Fire and Allied Perils 898.0 2,041.1

44.00

Fire 753.3 1,699.6

44.32

Earthquake/Fire/Shock 6.1 250.5

2.44

Typhoon/Flood/Tidal Wave 138.6 91.0

152.31

Marine 293.0 869.7

33.69

Ocean Marine 197.7 681.9

28.99

Inland Marine 55.3 74.9

73.83

Marine Hull 36.0 97.2

37.04

Aviation 4.0 15.7

25.48

Motor Car 3,015.3 4,850.4

62.17

CMVL-LTO 36.4 74.2

49.06

CMVL-Non-LTO 414.7 577.6

71.80

Other Than - CMVL-LTO 74.0 207.3

35.70

Other Than - CMVL-Non-LTO 2,490.2 3,991.3

62.39

Suretyship 88.6 712.7

12.43

Others 443.1 1,102.5

40.19

Health and Accident 197.7 571.9

34.57

Burglary/Larceny/Theft 15.0 46.6

32.19

Engineering 35.2 119.0

29.58

Miscellaneous 96.2 160.2

60.05 Life, for Professional

[Table]

Reinsurers 99.0 204.8

48.34

TOTAL 4,738.0 9,576.4

49.48 *CMVL - Comprehensive Motor Vehicle Liability ** LTO - Land Transportation Office and refers to public utility vehicles *** Non-LTO - refers to private and commercial vehicles Copyright 1997 Businessworld

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